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Memorandum for: RECORD

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This contribution paper was requested by the
National Security Council and was prepared by
[redacted] the Western Europe Division.

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EURM84-10235

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EURM/WE, [redacted] /29Nov84

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EUR M84-10235

West European Attitudes

The Energy Dependency Issue. The West Europeans do not regard their present or projected energy dependence on the USSR as a serious problem. On the contrary, they believe that their overall energy security actually is enhanced by this diversification of energy sources away from OPEC. They argue that the Soviets have proven to be reliable and businesslike trade partners who would be extremely reluctant to disrupt a relationship from which they derive great benefit. In our view, this assessment is basically valid -- so far at least. The USSR has in fact established a good record of honoring contracts and there have been very few instances of it using economic leverage in an effort to get political concessions from Western Europe -- the most notable exception occurring in 1958 when Moscow cut purchases from Finland in a successful bid to force the exclusion of Conservatives from the Finnish cabinet. A recent report that Moscow had threatened Austria with economic reprisals if it tightened controls on technology transfer apparently was unfounded, and a Soviet official apparently was speaking out of turn when he said that energy deliveries to the United Kingdom would be cut off in support of the miners' strike. [REDACTED] 25X1

To be sure, West European policymakers are not totally sanguine about the growing dependence on Soviet energy. Both France and West Germany decided several years ago that Soviet gas should not supply more than about 30 percent of their total gas needs1 -- a level that they, along with Italy, will reach by the end of the decade when the new Soviet pipeline is in full

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operation. At this level of dependence a Soviet gas embargo would create difficulties, but the West Europeans are confident that they could cope reasonably well by means of conservation, fuel-switching, and increased imports of Dutch gas. [REDACTED]

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With the West Europeans now seeking additional gas supplies to cover their needs in the 1990s, the key question is how they would feel about still greater dependence on the USSR. Another major deal with Moscow would push the Soviet share of the gas market close to 50 percent in the major recipient countries, obviously increasing the vulnerability to a cutoff. To avoid this situation we believe the West European gas buyers will first try to negotiate a deal for Norwegian gas and will even be willing to pay a small premium for gas from such a secure source. If Oslo is too demanding on price, however, we think the gas-buying countries would have relatively few qualms about turning to the USSR and would have little difficulty in reconciling this step with their IEA commitment to avoid undue dependency on a single supplier. [REDACTED]

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The United States probably does not have much leverage to influence the West Europeans on this issue, which they regard as primarily an internal matter. In our view the single most important element in forestalling another Soviet gas deal will be Oslo's willingness to lower its gas revenue demands enough to make gas from the Troll field competitive in Western Europe. As a third party to the negotiations, the US might have some

¹Paris recently restated this policy in somewhat different form: that no single gas supplier should provide more than 5 percent of France's total energy needs.

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capacity to influence Norwegian thinking on this. Additional US arguments about the dangers of dependency on the USSR probably will not get far with the gas buyers, who will stress that this is something for them to decide. Arguments about the benefits to the Soviet military of additional hard currency earnings would make only slightly more headway. The West Europeans would counter by stressing their opposition to "economic warfare" and by arguing that, if more generalized economic pressure is to be used against the USSR, then grain sales restrictions should also be part of the arsenal. [REDACTED]

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Attitude Toward Soviet Trade in General. In probably every West European country the prevailing view on trade with the Soviet Union is that it is desirable on both political and economic grounds. To be sure, estimates of the political benefits have been scaled back sharply compared with a decade ago, when many West Europeans believed that expanding trade would lay the foundation for a lasting improvement in East-West relations. These hopes were dashed when the rapid growth of Soviet-West European trade during the 1970s was followed by new Soviet missile deployments, the invasion of Afghanistan, and repression in Poland. Nonetheless, West European attitudes have only been modified, not fundamentally altered; the standard argument, in effect, is that Soviet behavior is better than it would have been in the absence of trade. A French official probably captured the prevailing view on the continent when he said that without trade, Moscow would look on Western Europe purely in military terms. [REDACTED]

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The economic benefits of trade with the USSR are more tangible but are still modest -- and, in our view, tend to be exaggerated by the West Europeans. The basic reality is that a market that accounts for only about 2 percent of Western Europe's exports cannot have a major economic impact on the region as a whole. In terms of employment, a West German economics institute has estimated that 122,000 West German jobs were directly or indirectly dependent on exports to the USSR in 1982. Since West Germany accounts for more than 40 percent of total West European sales to the Soviet Union, the jobs figure for the whole continent probably is on the order of 300,000 -- roughly 0.3 percent of the labor force. [REDACTED]

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The exaggerated importance attached to the Soviet market probably is a reflection of the nature of the trade. Deals with the Soviet Union typically are large-scale affairs, as opposed to a series of small contracts, and thus garner a disproportionate share of publicity. Perhaps even more important, most Soviet orders go to industries that have been depressed in recent years and that have powerful labor unions to help argue their cause. The struggling West European steel industry is the most obvious example: about 8 percent of its exports last year went to the USSR. [REDACTED]

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The West Europeans also see one major benefit on the import side of their trade with the Soviet Union: reduced dependence on OPEC. Four-fifths of their purchases from the USSR now consist of energy products and these covered about 8 percent of Western Europe's total energy needs in 1983. Without the Soviet oil and

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gas Western Europe would have to depend much more heavily on OPEC, which currently supplies about 23 percent of its energy needs. []

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Export Controls. Over the years there has been little change in the West European belief that export controls are justified only for products that contribute directly to Soviet military capabilities -- and they tend to take a narrower view in defining such products than does the United States. The underlying attitude is that more generalized economic sanctions have no significant impact because the Soviet military always gets what it needs anyway. According to this strongly held view the entire burden of generalized sanctions is borne by the Soviet civilian economy -- and by the Western suppliers who have lost the sales opportunity. []

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We thus believe it is highly unlikely that the West Europeans will agree to any significant COCOM restrictions on the sale of oil and gas equipment to the USSR. In addition to making the points outlined above, they are likely to argue that additional Soviet oil and gas production would benefit the world economy by reducing its dependence on OPEC. The West Europeans will also be aware, of course, that a large part of any Soviet hard currency earnings resulting from additional energy production is likely to be spent in Western Europe. []

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On the brighter side, the West Europeans have significantly tightened the terms on export credits to the USSR. Throughout the 1970s and into the early part of this decade -- when large contracts for gas pipeline equipment were being negotiated --

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they competed with each other in a counter-productive effort to boost exports by offering favorable credit terms. As the Soviets became adept at playing one country off against another, the West Europeans gradually realized that they were net losers in this game. As a result they joined in a new OECD consensus agreement that significantly boosted interest rates on export credits to the USSR. Moreover, they appear to be adhering closely to the agreement, with even the French and the Italians holding out against on-going Soviet efforts to get them to break ranks. [redacted]

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